

**A**BC News *Nightline* opened last June 9 with words to make the heart stop. "It is becoming increasingly clear," said a grave Ted Koppel, "that George Bush, operating largely behind the scenes throughout the 1980s, initiated and supported much of the financing, intelligence, and military help that built Saddam's Iraq into the aggressive power that the United States ultimately had to destroy."

Is this accurate? Just about every reporter following the story thinks so. Most say that the so-called Iraqgate scandal is far more significant than either Watergate or Iran-contra, both in its scope and its consequences. And all believe that, with investigations continuing, it is bound to get bigger.

Why, then, have some of our top papers provided so little coverage? Certainly, if you watched *Nightline* or read the London *Financial Times* or the *Los Angeles Times*, you saw this monster grow. But if you studied the news columns of *The Washington Post* or, especially, *The New York Times*, you practically missed the whole thing. Those two papers were very slow to come to the story and, when they finally did get to it, their pieces all too frequently were boring, complicated, and short of the analysis readers required to fathom just what was going on. More to the point, they often ignored revelations by competitors.

The result: readers who neither grasp nor care about the facts behind facile imagery like The Butcher of Baghdad and Operation Desert Storm. In particular, readers who do not follow the story of the Banca Nazionale del Lavoro, which apparently served as a paymaster for Saddam's arms buildup, and thus became a player in the largest bank-fraud case in U.S. history.

Complex, challenging, mind-boggling stories (from Iran-contra to the S&L crisis to BCCI) increasingly define our times; yet we don't appear to be getting any better at telling them. In the interest of learning from our mistakes, this reporter examined several hundred articles and television transcripts on Iraqgate and spoke to dozens of reporters, experts, and generally well-informed news consumers.

Before evaluating the coverage, let's summarize the Iraqgate story itself:

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## **IRAQGATE:**

# The Big One That (Almost) Got Away

Who Chased it — and Who Didn't by Russ W. Baker

## **ARMING SADDAM**

The United States and its European allies have laws and policies designed to prevent arms and military technology from getting into the hands of developing countries, especially where there is a likelihood of their reckless deployment. If these controls were aimed at anyone, certainly they were aimed at the highly repressive, swaggering Iraqi regime, with its history of threatening both its neighbors and its citizens.

Still, when Saddam went to war against Iran, becoming the world's chief practitioner of chemical warfare, U.S. realpolitikers dubbed him the lesser of two evils, and the one less likely to disrupt the oil flow. The essence of Iraqgate is that secret efforts to support him became the order of the day, both during his long war with Iran and afterward.

Much of what Saddam received from the West was not, arms per se, but so-called dual-use technology — ultra sophisticated computers, armored ambulances, helicopters, chemicals, and the like, with potential civilian uses as well as military applications. We've learned by now that a vast network of companies, based in the U.S. and abroad, eagerly fed the Iraqi war machine right up until August 1990, when Saddam invaded Kuwait.

And we've learned that the obscure Atlanta branch of Italy's largest bank, Banca Nazionale del Lavoro, relying partially on U.S. taxpayer-guaranteed loans, funneled \$5 billion to Iraq from 1985 to 1989. Some government-backed loans were supposed to be for agricultural purposes, but were used to facilitate the purchase of stronger stuff than wheat. Federal Reserve and Agriculture department memos warned of suspected abuses by Iraq, which apparently took advantage of the loans to free up funds for munitions. U.S. taxpayers have been left holding the bag for what looks like \$2 billion in defaulted loans to Iraq.

All of this was not yet clear in August 1989, when FBI agents raided U.S. branches of BNL, hitting the jackpot in Atlanta. The branch manager in that city, Christopher Drogoul, was charged with making unauthorized, clandestine, and illegal loans to Iraq — some of which, according to the indictment, were used to purchase arms and weapons technology. Yet three months after the raid, White House officials went right on backing Saddam, approving \$1 billion more in U.S. government loan guarantees for farm exports to Iraq, even though it was becoming clear that the country was beating plowshares into swords.

At the time, inquiring minds wondered whether Drogoul

could possibly have acted alone in such a mammoth operation, as the U.S. government alleged. Was there a formal, secret plan to arm Iraq? And did the U.S. government engage in a massive coverup when evidence of such a plan began to emerge?

In fact, we now know that in February 1990, then Attorney General Dick Thornburgh blocked U.S. investigators from traveling to Rome and Istanbul to pursue the case. And that the lead investigator lacked the basic financial know-how to handle such an investigation, and made an extraordinarily feeble effort to get to the bottom of things. More damningly, we now know that mid-level staffers at the Commerce department altered Iraqi export licenses to obscure the exported materials' military function — before sending the documents on to Congress, which was investigating the affair.

Eventually, it would turn out that elements of the U.S. government almost certainly knew that Drogoul was funneling U.S.-backed loans — intended for the purchase of agricultural products, machinery, trucks, and other U.S. goods — into dual-use technology and outright military technology. And that the British government was fully aware of the operations of Matrix Churchill, a British firm with an Ohio branch, which was not only at the center of the Iraqi procurement network but was also funded by BNL Atlanta. (Precision equipment supplied by Matrix Churchill was reportedly a target this January when the Western allies renewed their attack on Iraq).

It would later be alleged by bank executives that the Italian government, long a close U.S. ally as well as BNL's ultimate owner, had knowledge of BNL's loan diversions. It looked to some like an international coalition. As *New York Times* columnist William Safire argued last December 7, "Iraqgate is uniquely horrendous: a scandal about the systematic abuse of power by misguided leaders of three democratic nations to secretly finance the arms buildup of a dictator."

Safire had been on the case since 1989, turning out slashing op-ed pieces. But readers of the *Times's* news pages must have wondered where Safire's body-blows were coming from, since the news columns contained almost nothing about Iraqgate for the longest time.

## THE COVERAGE

Not everyone was slow to spot trouble. The coverage might be said to have begun in 1987, when Alan Friedman, a correspondent in Italy for the London *Financial Times* who was writing a book — *Agnelli: Fiat, and the Network of Italian Power* — learned of a European-based arms-procurement network that had gathered equipment for Iraq. In the book, published in 1988, he explored a five-year-old joint Argentine-Egyptian-Iraqi effort to build a ballistic missile capable of carrying a nuclear warhead, code-named CONDOR 2. Friedman's claims that Iraq was developing a nuclear weapon were shrugged off by colleagues in the press.

In August 1989, while working in Milan, Friedman noticed a four-line press release from Banca Nazionale del Lavoro. "Irregularities," it seemed, had been uncovered at BNL's Atlanta branch. (Later, Friedman would learn that this was the bank's way of acknowledging something troubling that had just transpired, unnoticed by the press: the FBI raids on BNL's U.S. branches.) Shortly thereafter, a London tipster told Friedman to look at a seemingly unrelated story — the possible role of a British company, Matrix Churchill, in secretly arming Iraq. When Friedman phoned a source in Rome and mentioned both firms, he was told to get on a plane and come down for a little chat. It lasted all night.

Beginning in September 1989, a *Financial Times* team, reporting from Milan, Baghdad, and London, laid out the first charges that BNL, relying heavily on U.S. government-guaranteed loans, was funding Iraqi chemical and nuclear weapons work. Led by Friedman, who relocated to New York City in early 1990, the reporters went on to produce about 300 articles over three years, painting a compelling portrait of a massive — and seemingly coordinated — international effort to aid Iraq. For the next two and a half years, the *Financial Times* provided the only continuous newspaper reportage on the subject.

The London paper tied CONDOR 2 to BNL Atlanta — which had just been publicly identified as the source of \$3 billion in unauthorized loans to Iraq. And in one 1989 article it warned that the BNL story was more than just another dull tale of banking malfeasance: "The CONDOR story raises questions about the effectiveness of the commitment of Western governments



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Ted Koppel on *Nightline*

to preventing military technology transfer." It pointed out that, while U.S. intelligence had long bragged about aggressively monitoring the transfer of military technology, Washington had fallen down on the job. The paper noted that if government sleuths had been serious about stopping the arms flow, they could have followed either the money trail or the technology trail. "In each case, they appear to have slipped up," it concluded.

The *Financial Times* extensively quoted top former officials at the International Monetary Fund, the Pentagon, and elsewhere, who expressed alarm over Export-Import Bank loan guarantees to Iraq. Some asserted that Washington had, as one of them put it, "allowed and abetted the development and stockpiling of a major chemical warfare capability" in Iraq. Among the companies shipping militarily useful technology under the eye of the government, according to the *Financial Times*, were Hewlett-Packard, Tektronix, and Matrix Churchill, through its Ohio branch.

The most striking thing about the paper's revelations is that they were published *before* Saddam Hussein invaded Kuwait in 1990. Douglas Frantz of the *Los Angeles Times*, who deserves a lot of credit for his own reporting on Iraqgate, nevertheless says the *Financial Times* was without question the early leader on the story. "Events subsequent have shown in most cases they were on the money," he says.

By early 1990 the *Financial Times* was no longer alone. Representative Henry Gonzalez, chairman of the House Banking Committee (who also had noticed the four-line BNL press release back in 1989), began a long, lonely crusade to expose the affair. Soon he would be entering related documents into the Congressional Record in late-night speeches before an empty chamber. Attorney General Thornburgh even wrote to him, demanding that he stop looking into BNL in the interests of "national security." He didn't. Meanwhile, many reporters, accepting the administration's line that it was shocked — shocked! — to discover the BNL subterfuge, treated Gonzalez as a crank.

On August 2, 1990, Saddam Hussein invaded Kuwait and the debate began in the U.S. over an appropriate response. But only a handful of reporters bothered to ask where he had acquired the military muscle for the invasion. One who did, Thomas L. Flannery of the *Intelligencer Journal*, a 45,000-circulation paper in Lancaster, Pennsylvania, warned in November: "If U.S. and Iraqi troops engage in combat in the Persian Gulf, weapons technology developed in Lancaster and indirectly sold to Iraq will probably be used against U.S. forces.... And aiding in this...technology transfer was the Iraqi-owned, British-based precision tooling firm Matrix Churchill, whose U.S.

operations in Ohio were recently linked to a sophisticated Iraqi weapons procurement network." Flannery, who wrote an impressive string of stories identifying Pennsylvania companies that supplied Iraq, had been hired by the *Financial Times* as an occasional stringer the year before.

Meanwhile, *The Village Voice* published a major investigation by free-lancer Murray Waas in its December 18, 1990, issue. Under the headline GULFGATE: HOW THE U.S. SECRETLY ARMED IRAQ, Waas pulled together a massive amount of information, ranging from senior White House officials' accounts that George Bush was a behind-the-scenes advocate of a pro-Iraq tilt, to an accounting of U.S. trade with Iraq that had a potential military application. "That American troops could be killed or maimed because of a covert decision to arm Iraq," Waas wrote, "is the most serious consequence of a U.S. foreign policy formulated and executed in secret, without the advice and consent of the American public."

The gulf war began shortly after, on January 16, 1991, and the media went wild. But when it ended six weeks later, most Americans knew little more about the war's root causes than they did before.

There would, however, be more to the story. Within hours after hostilities ceased on February 27 — and nineteen months after the FBI had raided BNL — the government indicted Drogoul, painting him as a lone-wolf financier of the Iraqi war machine. He was charged with defrauding his Rome employers of billions of dollars.

*Nightline*, which had been looking at Iraqgate for some time, hooked up with the *Financial Times* in an unusual and productive arrangement. On May 2, 1991, the team reported the secret minutes of the President's National Advisory Council, at which, despite earlier reports of abuses, an undersecretary of state declared that terminating Iraqi loans would be "contrary to the president's intentions."

*Nightline/Financial Times* also cited intelligence reports that Iraq was using U.S. government farm credits to procure military technology. On July 3, 1991, the *Financial Times* reported that a Florida company run by an Iraqi national had produced cyanide — some of which went to Iraq for use in chemical weapons — and had shipped it via a CIA contractor.

In another unusual and productive partnership, Douglas Frantz of the *Los Angeles Times* teamed up with *The Village Voice's* Murray Waas. The *Times* published the first of their three-part series on February 23, 1992. "Classified documents obtained by the *Times* show ... a long-secret pattern of personal efforts by Bush — both as President and as Vice-President — to support and placate the Iraqi dict

tor," the paper reported. It cited a top-secret National Security Decision directive signed by President Bush in 1989, ordering closer ties with Baghdad and paving the way for \$1 billion in new aid. Although the directive had been briefly described in other publications, the *Times* put it in context. Assistance from Washington was critical for Iraq, Frantz and Waas pointed out, since international bankers had cut off virtually all loans to Baghdad because Iraq was falling behind on repayments — precisely because it was busily pouring millions into arms purchases.

And it emphasized the striking fact — buried deep in a 1991 *Washington Post* piece — that Secretary of State James Baker, after meeting with Iraqi Foreign Minister Tariq Aziz in October 1989, intervened personally to support U.S. government loan guarantees to Iraq.

"Nobody responded to that [February 1992] series," says Frantz. "That week, Gonzalez went onto the house floor to deliver another speech, and nobody followed that either." The *Los Angeles Times* went on to publish 100 articles exploring the history of U.S.-Iraq relations before and after the war. The reportage was, admirably, light on anonymous sources and heavy on information from internal documents, shared with the paper by government employees troubled by what they had seen.

Still, the top national papers ignored most of the *Financial Times/Nightline* and *Los Angeles Times* revelations. In fact, when in March an obscure Italian newspaper reported Drogoul's claim that both the Italian and U.S. governments had known and approved of his lending operation, only the *Financial Times* picked up the story.

Things began to heat up last June when, in an abrupt turnabout, the feds suddenly agreed to drop 287 of 347 charges against Drogoul in return for a guilty plea and pledge of cooperation. Drogoul, who had asked for an opportunity to explain his actions fully, suddenly decided to go mute. A troubled Judge Marvin Shoob, presiding over Drogoul's case, wrote to the head of the House Judiciary Committee: "[Drogoul] decided not to provide a statement until sentencing, after debriefing over a two-month period by the government."

By July, five other congressional committees had joined Gonzalez's banking panel in launching probes into various aspects of the Iraqgate affair, and Democrats were demanding that an independent prosecutor be named to investigate it.

Since Drogoul had made a

deal, the fall sentencing hearings were expected to be brief. But they turned into a major show when, in October, Drogoul's lawyer suddenly began introducing new evidence that the head office of the Italian-government-owned bank had known all along what Drogoul was up to. He also produced testimony suggesting that figures with ties to U.S. intelligence may have been involved. The prosecution quickly asked to withdraw its plea bargain, and agreed to a trial (which had the net effect of postponing public airing of the affair until after the November election).

Earlier, *The Village Voice's* Robert Hennelly had assembled a massive timeline documenting a pro-Saddam U.S. tilt dating back a full decade. He concluded: "At worst, that support was a frightening exercise in capitalistic opportunism (we made money both supporting and attacking Hussein)...."

### THE PACK JOINS IN

Drogoul's plea bargain and sentencing hearing provided a perfect new peg, and everyone finally jumped in. With the *Financial Times* far in the lead and the *Los Angeles Times* a strong second, the Big Three — *The New York Times*, *The Washington Post*, and *The Wall Street Journal* — got into Iraqgate late, leaving beat reporters struggling to untangle the story's many complex international strands.

The *Journal* set the pace. Chiefly through reporter John Fialka, the paper made up for its late awakening by demystifying technicalities through striking headlines and crystal-clear prose. Despite a small general news hole, the *Journal* constantly found space for explanatory Iraqgate pieces.

The *Post's* early coverage had a protective tone. In July, reporter John Goshko wrote about Bush administration actions that "unwittingly bolstered" Iraq's military. And he asserted: "The record suggests that Bush...Baker and other senior foreign policy advisers were not paying much attention to Iraq...."

The *Post's* R. Jeffrey Smith, whose Iraqgate coverage included the Drogoul hearing, produced several exclusives from Washington sources. Yet the paper did not significantly advance the story. "It was a story with high political content, and a paucity of hard evidence to back up charges of conspiracy," Smith says. "Some papers allowed themselves to be manipulated, acting almost as agents of the Democratic opposition. Some people made this a crusade."

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*Times* never learned more about this development.

### DON'T FOLLOW ME, I'M LOST

In other cases, the Big Two — but particularly *The New York Times* — simply muddled matters.

In October, it was revealed that the CIA had withheld from Congress — and possibly from prosecutors — crucial documents showing what the government knew about BNL. The Justice department blamed the CIA; the CIA blamed the Justice department; and Senator David Boren, chairman of the Senate intelligence committee, got angry at everyone.

Sciolino did her most energetic work covering this turf battle, often using unnamed sources, which made it difficult to discern whose agenda was being advanced. And although the *Times* finally started producing exclusives in its coverage of this matter, its daily revelations over the finger-pointing were hard to follow and did little to foster understanding of the bigger story. (In the end, evidence suggested that the CIA had withheld the documents at the request of Justice. If so, in retrospect, the story was the collusion, not the feud.)

Readers' comprehension suffered when this complex story was reported as a he said-she said exercise. Here's Sciolino on October 11, writing about the intergovernmental feud: "The unusual finger-pointing over the case came after reports that CIA officials had disclosed to Congress on Thursday that, at the urging of the Justice Department, they had deliberately withheld information about the bank fraud from federal prosecutors in Atlanta.... CIA and Justice Department officials denied those reports today.... But their denials came amid a new disclosure by lawmakers that the Justice Department also had withheld information that the CIA wanted to make public.... The CIA, the Justice Department, and the Bush Administration have all denied wrongdoing in the case.... In a sharply worded statement today, the CIA denied that its officials had told the Senate Committee that it had deliberately withheld information from Federal prosecutors in Atlanta at the urging of the Justice Department."

Wording like this, one television producer who has followed Iraqgate observed, "makes *The New York Times* responsible for gross public apathy."

Dean Baquet, who had earned a reputation as a formidable investigative reporter during his years with

the *Chicago Tribune*, worked to advance the story on several occasions, especially covering Matrix Churchill developments in a separate trial in London. But he was only sporadically assigned to the story.

On October 18, Sciolino and Baquet wrote an overview piece, a belated effort to advance the story, although they appeared hesitant to state what, for others, had been all but proven long ago. Notice the qualifiers: "Some Congressional Democrats say the recent revelations are only a tiny part of a two-pronged Government-wide cover-up: to protect and conceal its dealings with Mr. Hussein, and to accommodate the Italian government. Even more ominously, these critics, without any real proof, have begun to suggest that the administration knew about the loans all along."

Six congressional committees was hardly "some" Democrats; the revelations were hardly "recent"; the evidence of administration knowledge was, by now, fairly overwhelming. As even the national-security minded columnist Jim Hoagland, writing a week earlier in *The Washington Post*, put it, "That Bush is tolerating a coverup on Iraq conducted by others on his behalf can no longer be seriously doubted. That Bush has lied about his knowledge of shipments of U.S. arms to Iraq can no longer be seriously disputed."

On November 2, Representative Gonzalez announced that the Agriculture department, which had approved BNL loans, had learned back in 1990 from the CIA that BNL Rome was involved in the alleged Atlanta fraud. This revelation not only challenged the government's assertion that Drogoul had acted alone, but also implied that a coverup was under way.

Gonzalez's disclosure represented another news peg. The *Journal* covered the disclosure in a piece headed FARM AGENCY KNEW SCOPE OF BNL FRAUD. Working from the same material that same day, the *Times*, in a story headed 1990 LETTER ADDS NEW QUESTIONS ON CIA ROLE IN IRAQ BANK CASE, chose to emphasize the CIA-Justice turf battle, obscuring the main point: that the Agriculture department was in the BNL loop. (And while the *Journal* cited Gonzalez in the second paragraph, the *Times* waited until the very last sentence to credit the congressman.)

*Times* deputy national editor Philip Taubman, who was deputy bureau chief in Washington until late last year and supervised much of the reporting on Iraqgate (except when it was assigned to the paper's business or foreign desk), sees the *Times*'s heavy coverage of

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the CIA-Justice fight as a plus. "I don't think it's inside baseball when two major branches of government are involved in a donnybrook, both accusing each other of malfeasance," he says.

Many reporters from other newspapers criticize the *Times's* coverage of Iraqgate, and much of its coverage in general, for a bias toward authority, an unwillingness to challenge power. Taubman, however, sees his newspaper as properly cautious. "I think it's off base to suggest that our coverage was somehow deficient because we attempted to lay out what charges were confirmed and which might still fall short of being confirmed," he says. "We try in all our stories to make clear what we don't know, as well as what we know. And in a complicated story of this type I think it's good journalism to clue the reader in where inflammatory accusations are not yet, and may never be, confirmable or provable."

Sciolino, who recently moved on to become the paper's chief diplomatic correspondent, admits that coming in late to such a complicated story was tough. "I couldn't summarize the story in one sentence," she says. "That's what made it so difficult to explain — to an editor, to people at a cocktail party. It's even more complicated than Iran-contra."

In retrospect, she says, "I think our paper could have done a better job, especially in the beginning. One spinoff could be to look at the whole arms procurement network around the world, how independent arms dealers, banks, and governments who own weapons-production facilities promote arms proliferation." Yet, Sciolino adds, arms proliferation "is not a sexy story."

She praises the *Los Angeles Times* for putting two people on the story, and for treating it as an investigation rather than as a beat story. She says her paper was hobbled because the story affected several sections of the paper — foreign, national, and business — and was parceled out to them. So no one editor was in charge of coordinating coverage.

#### LESSONS

With Dragoul's new trial set for October, there is still time for news organizations to wise up. Some things everyone agrees on: besides exploring the proliferation of weapons into unstable or dangerous hands, a serious Iraqgate investigation would look at the power of America's largest corporations

Besides exploring the proliferation of weapons, a serious Iraqgate investigation would look at the power of America's largest corporations to sway foreign policy

to sway foreign policy in ways that help them make sales. The *Los Angeles Times*, the *Financial Times*, and others did explore this, but there was little follow-up. One exception was the *Journal*, which led an October 12 piece this way: "In the unfolding drama of how the U.S. financed and supplied Saddam Hussein's Iraq, there's more than a walk-on part for corporate America." The *Journal's* John Fialka cited a list of major U.S. corporations that "saw Iraq as a gusher of business — so long as credits were wrung out of government agencies such as the Agriculture department, Commodity Credit Corp., and the Export-Import Bank."

Serious coverage would also examine geopolitical arrangements between countries like the U.S. and Italy, the place of banks in global scandals, and the role of American and foreign intelligence agencies in secretly carrying out policies that the American people have not endorsed. And to do this it would also seem necessary to report this story with some distance from partisan sources, whether Robert Gates or Henry Gonzalez, and not just count on leaks alone.

As it was, for a long time reporters couldn't even count on partisan political warfare to generate scoops. In Congress, both parties had repeatedly backed legislation authorizing farm credits to Iraq — despite warnings from Kurdish representatives that the funds would end up being used against them, in the form of poison gas. With no one to hand the story to the media on a platter, unraveling it required following hunches, and spending time and money — serious investigative reporting that roams far afield from the constraints of the conventional beat.

For ABC, which broke plenty of stories in concert with London's *Financial Times*, only to watch them sink, covering Iraqgate has been a sobering experience. "It's been very frustrating for us," says Gordon Platt, a *Nightline* producer. "We'd put it on the air, but there would be no follow-up by the other press. We'd expect the *Times* or *Post* would pick up on it. But until this last summer, they didn't."

As for why much of the press fears this kind of story, perhaps Ted Koppel put it best. "There's a good reason why we in the media are so partial to a nice, torrid sex scandal," he

said as he opened yet another *Nightline* Iraqgate report last July. "It is, among other things, so easy to explain and so easy to understand. Nothing at all, other words, like allegations a government coverup, which tend to be not at all easy to explain, and even more difficult to understand."